



# **SOUTHWEST GAS CORPORATION**



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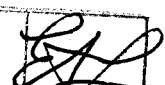
February 28, 2014

Docket Control Office  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007-2996

**ORIGINAL**

Arizona Corporation Commission  
**DOCKETED**

FEB 28 2014

DOCKETED BY 

Re: **Docket No. G-01551A-10-0458; D.72723**

Southwest Gas Corporation (Southwest Gas) hereby submits for filing an original and thirteen (13) copies of its Application for Approval to Set Customer Owned Yardline (COYL) Cost Recovery Mechanism Surcharge Rate. This Application is being submitted in compliance with Sections 5.15 through 5.18 of the Settlement Agreement approved by the Commission in Decision No. 72723 issued in Docket No. G-01551A-10-0458. Please note that the Company's annual COYL report which is included as Exhibit 1 to the Application, contains exhibits (Exhibits D and E) that are deemed confidential, proprietary, and commercially sensitive to Southwest Gas. Copies of the confidential exhibits are provided to the Staff of the Arizona Corporation Commission under separate cover in accordance with the existing Protective Agreement applicable to this docket.

If you have any questions regarding the attached, please contact me at (702) 876-7163.

Respectfully,

*Debra S. Gallo by cmg*

Debra S. Gallo, Director  
Government & State Regulatory Affairs

DSG/cb  
Enclosures

Cc: Steven Olea, ACC  
Bob Gray, ACC  
Brian Bozzo, ACC Compliance  
Robin Mitchell, ACC Legal Division  
Patrick Quinn, RUCO

5241 Spring Mountain Road / Las Vegas, Nevada 89150-0002  
P.O. Box 98510 / Las Vegas, Nevada 89193-8510 / (702) 876-7011  
[www.swgas.com](http://www.swgas.com)

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

BOB STUMP – Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

Docket No.: G-01551A-10-0458

In the Matter of the Application of  
Southwest Gas Corporation for the  
Establishment of Just and Reasonable  
Rates and Charges Designed to Realize a  
Reasonable Rate of Return on the Fair  
Value of the Properties of Southwest Gas  
Corporation Devoted to its Arizona  
Operations; Approval of Deferred  
Accounting Orders; and for Approval of an  
Energy Efficiency and Renewable Energy  
Resource Technology Portfolio  
Implementation Plan.

**APPLICATION FOR APPROVAL TO SET CUSTOMER OWNED YARDLINE (COYL)  
COST RECOVERY MECHANISM SURCHARGE RATE**

**Introduction**

1. Southwest Gas Corporation ("Southwest Gas" or "Company") hereby  
submits its application to the Arizona Corporation Commission ("Commission")  
respectfully requesting to update the previously approved surcharge rate related to its  
Customer Owned Yardline (COYL) program to reflect 2013 COYL activity.

2. Southwest Gas is a corporation in good standing under the laws of the  
state of Arizona, is a corporation duly organized, validly existing, and is qualified to  
transact intrastate business.

1           3.     Southwest Gas' corporate offices are located at 5241 Spring Mountain  
2 Road, P. O. Box 98510 Las Vegas, Nevada 89193-8510. Communications regarding  
3 this filing should be addressed to:

4  
5           Catherine M. Mazzeo, Esq.  
6           Associate General Counsel  
7           Southwest Gas Corporation  
8           P.O. Box 98510  
9           Las Vegas, Nevada 89193-8510  
10          Telephone No. (702) 876-7250  
11          Email: catherine.mazzeo@swgas.com

          Debra Gallo  
          Director/Government & State  
          Regulatory Affairs  
          Southwest Gas Corporation  
          P.O. Box 98510  
          Las Vegas, Nevada 89193-8510  
          Telephone No. (702) 876-7163  
          Email: debra.gallo@swgas.com

12           4.     Southwest Gas is a public utility subject to the jurisdiction of the  
13 Commission pursuant to Article XV of the Arizona Constitution and the applicable  
14 chapters of Title 40 of the Arizona Revised Statutes ("A.R.S."). Southwest Gas  
15 currently serves approximately 1.9 million customers in the states of Arizona,  
16 California, and Nevada. Approximately 54 percent of the Company's customers are  
17 located in the state of Arizona, including portions of Cochise, Gila, Graham, Greenlee,  
18 La Paz, Maricopa, Mohave, Pima, Pinal, and Yuma counties. For operational  
19 purposes, Southwest Gas' Central Arizona division is headquartered in Phoenix and  
20 its Southern Arizona division is headquartered in Tucson.

#### 21           **Background**

22           5.     The Commission issued Decision No. 72723 in Southwest Gas' 2010  
23 general rate case, which included approval of the Company's COYL program  
24 consistent with the terms of a Settlement Agreement involving the Company and  
25 various other parties to the docket. Through the COYL program, the Company leak  
26 surveys COYLs in its Arizona service territories and provides those customers with  
27 leaking COYLs the opportunity to replace their COYLs with facilities owned and  
28

1 operated by Southwest Gas.<sup>1</sup> The Settlement Agreement requires that the Company  
2 file a report each February to provide various details on the program's performance.<sup>2</sup>  
3 The Company's annual report, covering the period January 1, 2013 through December  
4 31, 2013, is attached hereto as Exhibit 1.

5 6. As detailed in the accompanying report, the COYL program continues to  
6 be successful. The Company discovered 2,371 leaking COYLs, with 2,251 of the  
7 affected customers electing to have Southwest Gas relocate their gas meters and  
8 replace their COYLs with facilities owned and operated by the Company – an  
9 acceptance rate of approximately 95 percent.<sup>3</sup>

10 7. Decision No. 72723 also authorized the establishment of the COYL Cost  
11 Recovery Mechanism ("CCRM"). The CCRM is an interim cost recovery mechanism  
12 that allows Southwest Gas to recover the capital investment associated with the COYL  
13 program. Pursuant to the terms of the Settlement Agreement, the CCRM is based  
14 upon actual costs and costs eligible for recovery (depreciation and pre-tax return).  
15 The CCRM surcharge is reset annually, and contains a cap that prevents an increase  
16 in the surcharge amount greater than \$0.01 per therm in any single year.<sup>4</sup>

17 8. Based upon collaborations between the Company and the Arizona  
18 Corporation Commission Utilities Division Staff ("Staff"), the Settlement Agreement  
19 provides that Staff will, within 45 days, review the Company's filing and make its  
20 recommendations to the Commission.<sup>5</sup>

#### 21 **Request to Reset CCRM Surcharge Rate**

22 9. Southwest Gas hereby requests approval to reset its CCRM surcharge  
23 rate, based upon the COYL-related capital investments made by the Company from  
24 January 1, 2013 through December 31, 2013.

25  
26 <sup>1</sup> Settlement Agreement, at §§5.13-5.19. The Commission recently modified Decision No. 72723 to  
27 authorize Phase II of the COYL program (Decision No. 74304). The Company is currently implementing  
28 Phase II of the program and will include Phase II data in its annual COYL reports beginning in 2015.

<sup>2</sup> Id. at §5.18.

<sup>3</sup> Exhibit 1, at pg. 1.

<sup>4</sup> Settlement Agreement, at §§5.15-5.16.

<sup>5</sup> Id. at §5.18.

10. In 2013, approximately \$5.7 million was deferred into a capital account for recovery through the CCRM. Utilizing the formula provided in the Settlement Agreement,<sup>6</sup> the Company proposes a CCRM surcharge of \$0.00241 per therm. The Company's surcharge calculations are attached hereto as Exhibit 2.

11. The Company requests that the Commission approve the CCRM surcharge as set forth herein, effective June 1, 2014.

## Conclusion

12. Based upon the foregoing, Southwest Gas respectfully requests that the Commission reset the CCRM surcharge as set forth herein, with an effective date of June 1, 2014.

Respectfully submitted this 28<sup>th</sup> day of February 2014.

**SOUTHWEST GAS CORPORATION**

Catherine M. Mazzeo  
Catherine M. Mazzeo  
Arizona Bar No. 028939  
5241 Spring Mountain Road  
Las Vegas, NV 89150-0002  
(702) 876-7250  
(702) 252-7283 facsimile  
catherine.mazzeo@swgas.com

*Attorney for Southwest Gas Corporation*

<sup>6</sup> *Id.* at Exhibit B.

# **SOUTHWEST GAS CORPORATION**

## **CUSTOMER OWNED YARDLINE**

### **ANNUAL REPORT**

# **EXHIBIT 1**

## **1. Introduction**

Southwest Gas Corporation (Southwest Gas or Company) hereby submits to the Arizona Corporation Commission (Commission) its second annual report on its Customer Owned Yard Line (COYL) program. Pursuant to the Settlement Agreement approved by the Commission in Docket No. G-01551A-10-0458 (Decision No. 72723), Southwest Gas was authorized to establish a program to leak survey the COYLs in its Arizona service territories and to provide customers the opportunity to have leaking COYLs replaced with facilities owned and maintained by Southwest Gas.<sup>1</sup>

The second year of Southwest Gas' COYL program demonstrates continued success. The Company inspected 51,432 COYLs in the period January 1, 2013 through December 31, 2013. Southwest Gas discovered 2,371 leaking COYLs in 2013. As shown on Exhibit A to this report, and as detailed more fully below, the Company replaced 2,251 COYLs in the 2013 program year, and only 90 customers declined the program, resulting in a 95 percent customer acceptance rate.<sup>2</sup>

## **2. Overview of the COYL Program**

### **Background**

For the purpose of its program, Southwest Gas defines a COYL as the customer-owned exterior gas piping that connects at the meter and continues to where the gas piping enters the customer's premise. A diagram depicting a typical COYL installation is attached hereto as Exhibit B. Because Southwest Gas is not required to inspect or maintain facilities beyond the point of delivery (at the meter), the responsibility for maintaining the COYL rests with the customer. Southwest Gas notifies new customers

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<sup>1</sup> Settlement Agreement, §§ 5.13-5.19.

<sup>2</sup> As of December 31, 2013, 140 affected customers remained undecided.

of this obligation through a new customer brochure, and reminds all COYL customers to inspect and maintain their yardlines through monthly notices included with their bills.

Southwest Gas proposed the program in its 2010 general rate case, after noticing an upward trend in odor calls related to COYLs. Prior to the COYL program, a customer's only options for remedying a leaking COYL was to pay Southwest Gas to replace the COYL with Southwest Gas facilities and relocate the gas meter, hire a licensed plumber to repair the leak or replace the COYL, or discontinue natural gas service.

There are several benefits to replacing COYLs with utility-owned facilities, including, but not limited to, enhanced public safety, increased pipeline safety, reliability and integrity, and routine maintenance by a Commission-regulated utility. However, before the COYL program was introduced, approximately 70 percent of customers with leaking COYLs hired a plumber to repair or replace the COYL, and only 15 percent elected to have Southwest Gas install its own facilities and relocate the gas meter. In its first two years, the COYL program has dramatically improved upon these statistics, with over 95 percent of customers with leaking COYLs electing to replace the COYL with Southwest Gas facilities.

#### COYL Groups

Southwest Gas currently estimates approximately 94,300 active COYL customers in Arizona. Southwest Gas continues its strategy of separating COYL accounts into three groups:



- Group 1 – Customers for whom a leak inspection is conducted as part of the regular course of Southwest Gas' service (i.e. service turn-ons, odor complaints, and unusual usage investigations), and customers whose leaking COYLs might be identified through routine maintenance leak surveys on Southwest Gas facilities.
- Group 2 – Customers impacted by the Company's scheduled pipe replacement projects, whose COYLs could be surveyed while additional Company or contractor resources are available nearby.
- Group 3 – All remaining COYL customers, who will be contacted by the Company regarding a COYL leak inspection. In determining the leak survey schedule for COYL customers in Group 3, the Company considers both the year the COYL was installed and any leak history that the Company is aware of.

While the leak surveys in the first program year focused largely on Groups 1 and 2, in the period January 1, 2013 through December 31, 2013, the Company conducted a greater number of surveys on accounts in Group 3. Southwest Gas plans to continue its Group 3 surveys in 2014. In addition, the Company will be implementing Phase II of the COYL program, which was approved by the Commission on January 29, 2014 (Decision No. 74304). In Phase II of the program, the Company will replace COYLs in coordination with other Southwest Gas pipeline replacement projects. Phase II also allows the Company (with customer permission) to replace a COYL and relocate the meter, regardless of whether or not the COYL is leaking. Southwest Gas will provide Phase II data in its next annual report.

### Communications with Customers

Southwest Gas continues to employ a comprehensive communications process to explain the COYL program to customers and obtain their permission, where necessary, to conduct the COYL leak surveys. In compliance with Decision No. 73883, the Company filed its Customer Owned Yard Line Response and Participation Plan (Plan) with the Commission August 6, 2013. The Plan details the Company's current efforts to increase customer response to, and participation in, the COYL program.<sup>3</sup> For example, in August of 2013 Southwest Gas supplemented its existing COYL outreach process with a telephonic component, aimed at eliciting responses from customers who might not respond to the written program materials provided in door hangers and by mail. Once the telephonic component has been in place for a full year, the Company will be able to assess its overall effectiveness, and will include the results in its next annual report. The Plan also discusses the Company's longer-term goals for expanding the existing communications process as the COYL program continues to grow and evolve, including but not limited to making program information and educational materials available through the Company's website.

### Cost Recovery

Unlike capital investments that generate new customers or increased load, Southwest Gas' COYL program is dedicated to capital investments that are non-revenue producing in nature. Therefore, the Company's ability to timely recover its capital investment is an essential component of the COYL program. Consistent with the terms of the Settlement Agreement, Southwest Gas charges the capital investment

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<sup>3</sup> There were no objections to the Plan or the Company's proposed efforts to increase customer response to, and participation in, the COYL program.

associated with the COYL program to a capital account, for recovery through the COYL cost recovery mechanism (CCRM).<sup>4</sup>

In light of the industry's heightened focus on replacing aging and leak-prone infrastructure, interim cost recovery mechanisms like the CCRM are increasingly prevalent. Indeed, nearly 75 natural gas utilities across 34 states and the District of Columbia have infrastructure cost recovery mechanisms in place.<sup>5</sup> These mechanisms provide the following benefits:

- Eliminate impediments to investing in non-revenue producing infrastructure by providing for timely cost recovery between rate cases
- Mitigate customer bill impact by providing annual surcharge adjustments and other reasonable program conditions
- Allow regulatory oversight over utility initiatives to replace infrastructure
- Complement the rate case process by applying the same cost-of-service ratemaking principles while avoiding the need for more frequent rate case proceedings

Approximately \$5.7 million in capital costs were deferred for recovery through the CCRM in 2013.<sup>6</sup> The resulting surcharge equals \$0.00241 per therm.

### **3. 2013 Program Results**

The overall results of Southwest Gas' COYL program for the period January 1, 2013 through December 31, 2013 are reflected in Exhibit C to this report. In 2013, Southwest Gas inspected 51,432 yard lines, of which 3,255 were determined not to be

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<sup>4</sup> Settlement Agreement. at \$5.15.

<sup>5</sup> "Innovative Rates, Non-Volumetric Rates and Tracking Mechanisms: Current List", American Gas Association (February 2014).

<sup>6</sup> The COYL program expanded into rural areas of the state during 2013, requiring additional footage and capital costs.

COYLs, and another 2,913 were determined to be ineligible for the COYL program.<sup>7</sup> Among the remaining COYLs, Southwest Gas discovered 1,967 leaks, resulting in a leak rate of approximately 4.3 percent. In addition, Southwest Gas discovered leaks on 404 COYLs that were previously reported as a successful leak survey, a declined leak survey, or a non-response.<sup>8</sup> As mentioned above and detailed in Exhibit A, only 90 of the 2,371 customers with leaking COYLs declined to participate in the Company's program. The average construction period was five days (from the date the contract was signed by the property owner to the date natural gas service was restored).

Attached hereto as Exhibits D and E is information detailing, by location, the means by which the leaking COYLs were discovered and the capital costs incurred. The cumulative capital costs associated with the Company's COYL replacements since the program's inception averaged approximately \$2,450 per COYL. As referenced above, the resulting CCRM surcharge equals \$0.00241 per therm. The average residential impact is approximately \$0.06 per month.

#### **4. 2014 Leak Survey Plans**

Southwest Gas' 2014 COYL leak survey activity will continue surveys for customers in all 3 customer groups. In Southern Arizona, where a majority of the COYLs are located, surveys for customers in Group 3 will continue primarily in the metropolitan Tucson area. In central Arizona, the Company has nearly completed its efforts to leak survey COYLs in individually metered mobile homes, and will be focusing

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<sup>7</sup> Examples of COYLs that are deemed ineligible for the program include COYLs that consist of above-ground piping and those that are connected to a multi-meter manifold.

<sup>8</sup> Southwest Gas refers to these COYLs as "non-reportable". Because these COYLs were "counted" in a previous year's report, Southwest Gas does not include them in the current report's inspection totals. However, because the leaks were found and addressed in the current program year, Southwest Gas does include these COYLs in its leak and meter replacement totals.

its survey efforts on single-family residences in 2014. The Company will also continue surveying COYLs in the Bullhead City, Fort Mojave and Parker areas of its Bullhead City district. In addition, Phase II of the COYL program will be implemented state-wide. Although the Company is currently focusing its Group 3 surveys on residential and individually metered mobile home accounts, it intends to gradually incorporate commercial and other non-residential COYLs into its survey rotation.

**5. Conclusion**

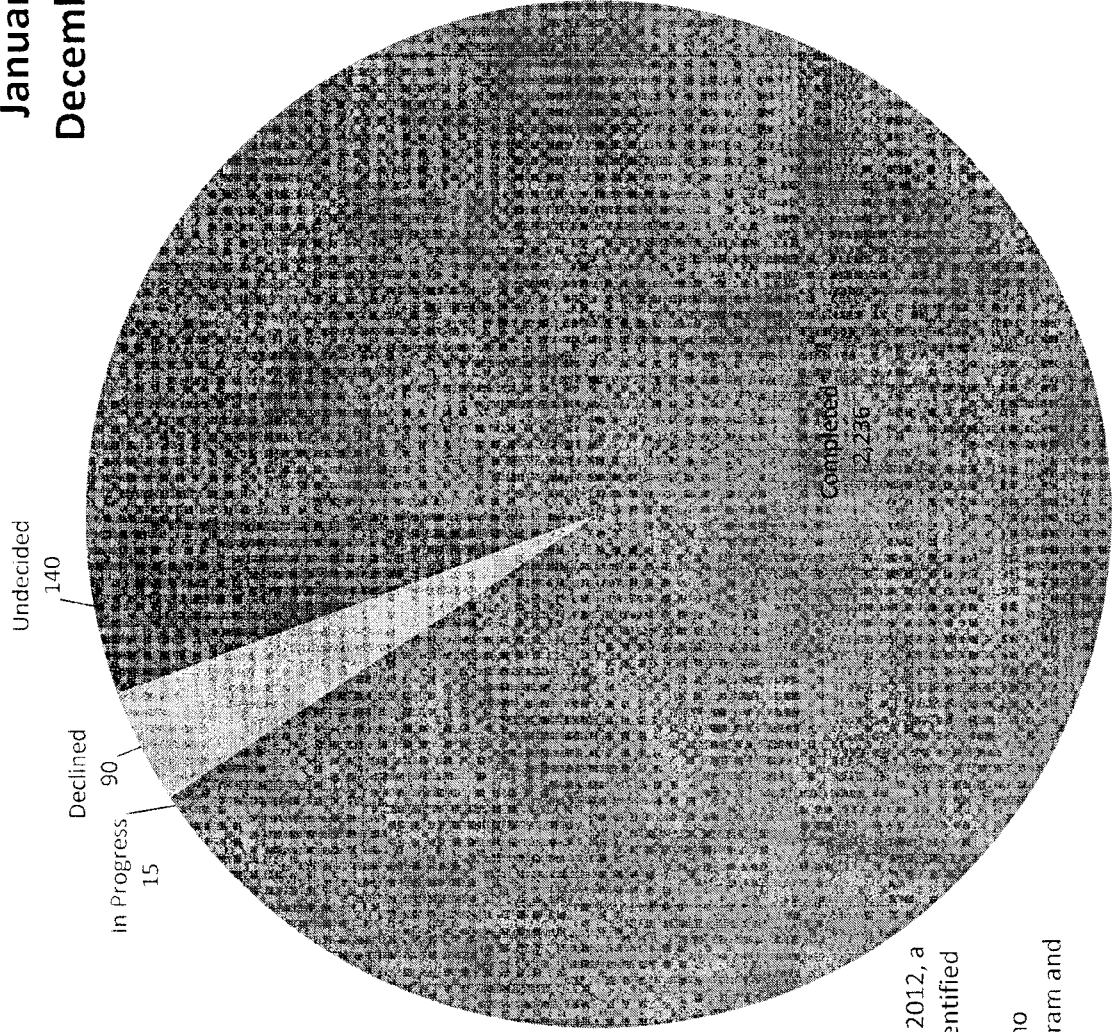
The results from the 2013 program year indicate that the program continues to assist COYL customers in the manner contemplated by the Settlement Agreement. The program therefore remains in the public interest. The Company will continue to monitor and evaluate the program, and will make any necessary program recommendations to the Commission as part of its annual COYL filings.

# **SOUTHWEST GAS CORPORATION**

## **CUSTOMER OWNED YARDLINE ANNUAL REPORT**

### **EXHIBIT A**

# COYL Meter Relocations January 1, 2013 - December 31, 2013



\* Total includes relocations identified as "in progress" in 2012, a portion of the relocations identified as "undecided" in 2012, and relocations for customers who previously declined the program and later reconsidered.

# **SOUTHWEST GAS CORPORATION**

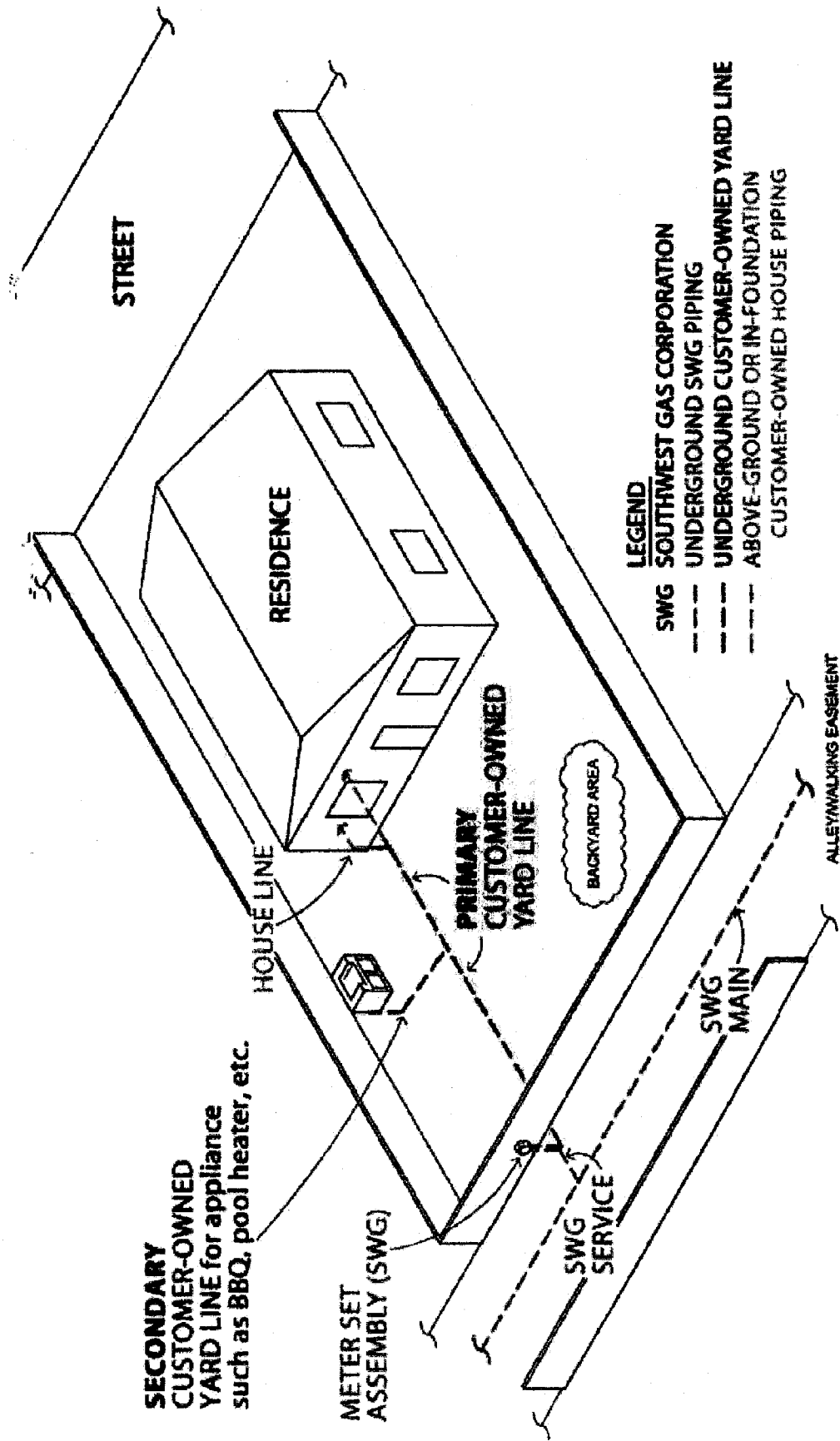
**CUSTOMER OWNED YARDLINE**

**ANNUAL REPORT**

**EXHIBIT B**



EXHIBIT B

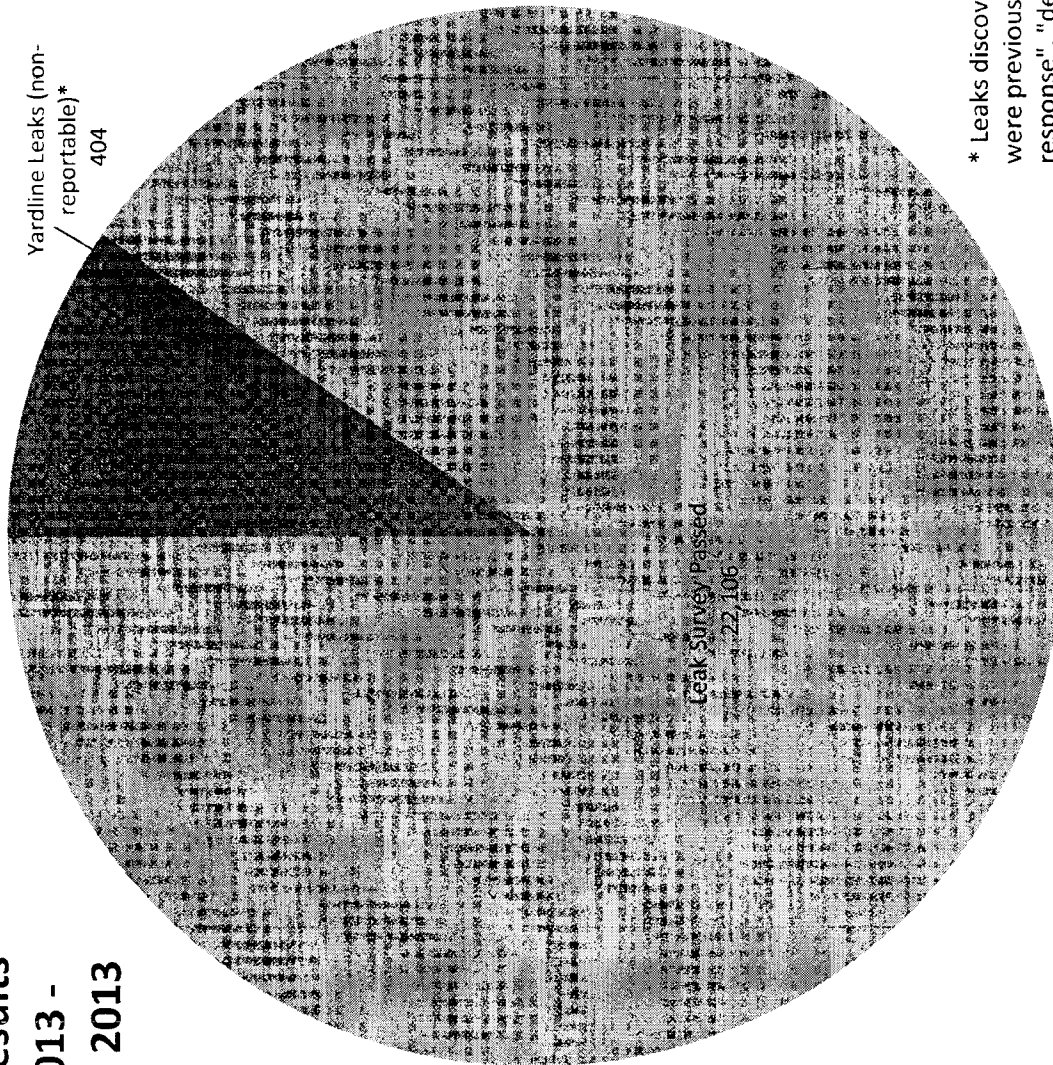


# **SOUTHWEST GAS CORPORATION**

## **CUSTOMER OWNED YARDLINE ANNUAL REPORT**

### **EXHIBIT C**

# **Leak Survey Results** **January 1, 2013 -** **December 31, 2013**



\* Leaks discovered on COYLs that were previously reported as "no response", "declined survey", or "leak survey passed".

# **SOUTHWEST GAS CORPORATION**

## **CUSTOMER OWNED YARDLINE ANNUAL REPORT**

### **EXHIBIT D**

**EXHIBIT D**

**CONFIDENTIAL**

**FILED UNDER SEAL**

# **SOUTHWEST GAS CORPORATION**

**CUSTOMER OWNED YARDLINE**

**ANNUAL REPORT**

## **EXHIBIT E**

**EXHIBIT E**

**CONFIDENTIAL**

**FILED UNDER SEAL**

# **SOUTHWEST GAS CORPORATION**

**CUSTOMER OWNED YARDLINE**

**ANNUAL REPORT**

## **EXHIBIT 2**



**SOUTHWEST GAS CORPORATION**  
**ARIZONA**  
**CUSTOMER OWNED YARD LINE (COYL) PROGRAM**  
**SURCHARGE CALCULATION**  
**AS OF DECEMBER 31, 2013**  
**PROJECTED EFFECTIVE DATE 6/1/14**

Line No.	Description (a)	Reference (b)	Amount (c)	Line No.
1	Gross COYL Plant Installed [1]	Company Records	\$ 9,800,453	1
2	Accumulated Provision for Depreciation	Company Records	<u>(239,520)</u>	2
3	Net COYL Plant	Ln 1 + Ln 2	\$ 9,560,933	3
4	Accumulated Deferred Income Taxes	Company Records	<u>(1,766,734)</u>	4
5	COYL Rate Base	Ln 3 + Ln 4	\$ 7,794,199	5
6	Return on COYL Rate Base	8.95% * Ln 5	697,581	6
7	Income Tax Factor	Settlement Agreement	<u>0.6579</u>	7
8	Income Taxes	Auth. Cost of Equity (9.5%) * Ln 5 * Ln 7	\$ 487,141	8
9	Depreciation Expense	Company Records	<u>334,389</u>	9
10	Total Revenue Requirement	Ln 6 + Ln 8 + Ln 9	\$ 1,519,112	10
11	2013 Full Margin Therms [2]	Company Records	<u>631,523,680</u>	11
12	Surcharge	Ln 10 / Ln 11	\$ <u>0.00241</u>	12

[1] Balance represents \$4.1M installed in 2012 and \$5.7M installed in 2013.

[2] Net of Low Income.